

# Bulletin

NUMBER: M2020-3

TO: Freddie Mac Multifamily Sellers and Servicers

September 30, 2020

## SUBJECTS

In the September 30, 2020 Guide Bulletin, we are:

### LIBOR transition

- Transitioning from [LIBOR to SOFR](#)

### Credit and underwriting requirements for SBL Mortgages

- Increasing our [FICO® score](#) requirements
- Revising our [property inspection](#) requirements
- Updating our [occupancy](#) requirements
- Revising certain requirements for [Borrower Principals with Control](#)
- Changing certain underwriting package requirements for [refinances with a return of equity](#)
- Revising our [rent roll](#) submission timeline requirement

### Documentation and deliveries

- Modifying the full underwriting package requirement for [Seniors Housing](#)
- Clarifying [rent roll](#) requirements

### General Freddie Mac policies

- Adding Seller/Servicer system administrator obligations for the use of Freddie Mac Approved [Third Party Applications](#)
- Clarifying our requirements for [audit documentation](#)

### Post-purchase reporting

- Clarifying and revising certain [property assessment and inspection](#) requirements
- Revising for consistency the close-out documentation requirements for [Value-Add Mortgages](#)

### Third-party reports

- Revising our [Form 1105](#), *Property Condition Assessment*, submission requirements
- Updating and clarifying certain [construction reporting](#) requirements
- Clarifying [Seismic Risk Assessment Repair Reserve](#) requirements
- Updating [Form 1102](#), *Seismic Risk Assessment Summary for a Level 1 SRA*
- Updating [Form 1106](#), *Green Assessment*

### Glossary updates

- Adding and revising the Glossary terms for “Guarantor,” “Freddie Mac Approved Third Party Applications” and “Foreign Guarantor”

## Housekeeping changes

- Housekeeping changes to Forms [1115](#), [1116](#), [1146](#) and [Section 46SBL.4\(d\)](#)

## Guide experience enhancements

- Making several changes to improve [the Guide](#) experience

## EFFECTIVE DATES

All revisions announced by this Bulletin are effective immediately, with the exceptions of submission of:

- Updated Form 1105, which is required for inspection dates on or after **October 17, 2020**
- New Form 5150, which is required on and after **November 1, 2020**

## GUIDE UPDATES SPREADSHEET

For a detailed list of the Guide updates associated with this Bulletin and the topics with which they correspond, access the Guide Updates Spreadsheet for this Bulletin posted at <https://mf.freddiemac.com/lenders/guide/bulletins.html>.

## CONCLUSION

More details on these changes are provided on the pages that follow. Guide text additions made in this Bulletin are color-coded in green on AllRegs®. If you have any questions about this Bulletin, please call your Freddie Mac representative.

Sincerely,

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Multifamily Underwriting and Credit

Leanne C. Spies  
Senior Vice President  
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## LIBOR transition

As we transition from the LIBOR index to the SOFR index, we're replacing references in the Guide from the LIBOR index to an alternative reference rate for floating-rate Mortgages and securitizations.

Sections 25.2(a) and 28.2(a) have been revised to state that the then-applicable note index will be used to calculate the underwritten interest rate for a taxable bond instead of the 1-month LIBOR rate.

For an interest rate cap agreement or an interest rate hedge agreement, the variable interest rate for a cap or swap will now be determined by using a percentage of the then-applicable note index, instead of a percentage of the LIBOR index. These changes can be found in Sections 25.12(e) and 28.12(k).

Freddie Mac has previously revised its legal documents to allow for the selection of an alternative index to LIBOR prior to the end of 2021, when LIBOR is anticipated to be phased out.

Visit our [LIBOR Transition](#) web page for important information regarding the transition to SOFR.

## Credit and underwriting requirements for SBL Mortgages

To maintain prudent credit and underwriting requirements for SBL Mortgages, we are revising the following requirements.

### FICO scores

We are increasing our FICO score requirements for SBL Mortgages to require individual Borrowers and Guarantors to have FICO scores of 680 (previously 650) or better with at least two of the national credit bureaus (Equifax, TransUnion or Experian) or an average FICO score of 680 (previously 650) or better with all three national credit bureaus.

We are updating Section 9SBL.2 to reflect these changes.

### Property inspections

For SBL Properties in Top Markets (as provided in the [SBL Market Tiering](#) spreadsheet), we are increasing the minimum number of units to be inspected from no fewer than two units to the greater of five percent of the total number of units at the Property or three units.

For all SBL Properties, we are increasing the number of lease audits from the greater of five percent of all units or three units to the greater of 25 percent of all units or 10 units, up to a maximum of 25 units unless otherwise required by Freddie Mac or the Seller.

We are updating Section 8SBL.15 to reflect these changes.

### Priority Repairs

We are updating our SBL Priority Repair requirements to state that the Loan Agreement must require that all Priority Repairs be completed within 12 months of the SBL Mortgage closing if any of the following conditions exist at the Property:

- The estimated cost to complete all Priority Repairs (including PR-90 Repairs) identified in the SBL Physical Risk Report meets or exceeds the greater of \$25,000 or two percent of the unpaid principal balance
- The Property receives an "Overall Property Condition Rating/Capital Needs Over the Loan Term" rating of "Below Average" or lower in the SBL Physical Risk Report or "Poor" in the Seller and/or Freddie Mac inspection"

We are updating Section 8SBL.17 to reflect this change.

## Occupancy

For an SBL Mortgage to be eligible for purchase by Freddie Mac, we are revising our requirements to state that the Property securing the SBL Mortgage must have a minimum stabilized average physical occupancy of 90 percent for the trailing three-month period prior to underwriting. This will be applicable regardless of market.

We are also requiring that the Property securing the SBL Mortgage must have a minimum stabilized average physical occupancy of 90 percent for the month immediately preceding submission of the full underwriting package to Freddie Mac.

We are updating Section 8SBL.4 to reflect these changes.

## SBL Borrower Principals with Control

We are revising Section 9SBL.2(c) to require a Borrower Principal with Control of an SBL Property to either:

- Have owned the subject Property for at least five years as a Borrower Principal with Control, or
- As of the Seller application date, have ownership interest and be a Borrower Principal with Control in at least three multifamily properties (including the subject Property) and have been a Borrower Principal with Control in at least one of these three properties for a minimum of two years. If the subject Property has more than one Borrower Principals with Control, at least one of them must meet these conditions.

## Underwriting package requirements for refinances with a return of equity

We are updating the Guide to require additional information in the underwriting package if the SBL Mortgage is a refinance with a return of equity, including evidence of completion of previous capital expenditures or construction costs that have exceeded the greater of \$50,000 or three percent of the SBL Mortgage amount. The appraiser and/or physical risk consultant must review the evidence of capital expenditures or construction costs provided by the Seller and determine if they generally align with the documentation.

We are updating Sections 18SBL.2, 55SBL.2, 60.6, 60.12, 60.18, 62SBL.1, 62SBL.4, Form 1104, *SBL Physical Risk Report* (which will be updated on October 16, 2020), and Exhibit 1.2, *SBL UW Checklist*, to reflect these changes.

## Rent rolls

To ensure that the rent rolls we receive are accurate and up-to-date, we are revising Section 55SBL.2 to require that rent rolls for SBL Properties must be dated within seven days (previously 45 days) of the underwriting package.

## Documentation and deliveries

### Seniors Housing

In alignment with the Seniors Housing Loan Agreement, we are revising the full underwriting package requirements for Seniors Housing to:

- Clarify the list of contracts submitted should:
  - Include those that are for food service, healthcare or an annual consideration greater than \$50,000 (previously \$20,000)
  - No longer include contracts that have been added to the list solely because they have a term of greater than one year; and
  - Be certified by the Borrower as true and complete

- Clarify that the list of furniture, fixtures and equipment (FF&E) and motor vehicles submitted:
  - Should only include those not in the Borrower's name
  - May include the classes of FF&E or motor vehicles instead of a detailed list; and
  - Should be certified by the Borrower as true and complete
- The Legal Issues Analysis (LIA) should:
  - Identify any contracts that should be considered material for purposes of the Loan Agreement
  - Provide recommendations regarding assignments of contracts that are not in the Borrower's name; and
  - Provide recommendations regarding Lender's security interest in FF&E and motor vehicles that are not in the Borrower's name

Also, we are updating the Liability Assessment to require confirmation that specific policies and procedures are in place to address infectious controls (e.g., clinician's review of operator's policies and procedures).

We are updating Section 55.2 to reflect this change.

### Rent rolls

In the June 25, 2020 Bulletin, we updated the Guide to clarify what must be included on the rent roll. In this Bulletin, we are additionally clarifying that the rent roll must include the original occupancy date and month-to-month status per tenant for each unit.

We are updating Sections 55.2 and 55SBL.2 to reflect this change.

## General Freddie Mac policies

### Freddie Mac Approved Third Party Applications

With the availability of Optigo Happy, a time-saving mobile inspection platform, we are adding Seller/Service system administrator obligations to Sections 2.12 and 2.13. System administrators must manage user access to Freddie Mac Third Party Services following the same requirements and process for Freddie Mac Multifamily Software Applications. Freddie Mac has the explicit right to request lists of users from Freddie Mac Approved Third Party Application vendors from time to time.

To learn more about Optigo Happy, visit our Digital Transformation web page at <https://mf.freddiemac.com/digital-transformation/>.

### Audit documentation

We are updating Section 2.7 to clarify that documentation related to audits and audit reports is not required to be provided to Seller/Service and from Freddie Mac via DMS. The documentation may also be provided by other acceptable systems and methods such as via email.

## Post-purchase reporting

### Property assessments and inspections

#### *Property condition issues*

Given our dependence on our collateral and focus on the health and well-being of tenants, we deem physical condition issues to be of the utmost importance.

We are revising Section 40.7(d) to require Servicers to report quarterly in PRS Loan Item Tracking (LIT) on the following significant property condition issues:

- A property condition rating of four or five
- Deferred Maintenance totaling more than 10 percent of the UPB
- An identified Imminent Life Safety issue, or
- A situation that may require additional monitoring (at the discretion of Freddie Mac)

### *Unit inspections*

We are modifying our unit inspection requirements in Section 40.7(a) to more closely align with requirements at loan origination. The new unit inspection thresholds are detailed below:

- Occupied and vacant units: five percent of total occupied and vacant units, with a minimum of five units and a maximum of 15 units
- Down Units: 100 percent (Note: If there is a significant number of Down Units due to a large renovation project, the inspector may choose to inspect a representative sampling of Down Units)
- Commercial space: 100 percent

### *Additional clarifications*

We are clarifying:

- In Section 40.2(a) what key data points must be included in the rent roll for the purposes of a Property assessment
- In Section 40.2(b) the requirements for the timing of Property assessments for SBL Mortgages

### **Close-out documentation requirements**

We are revising the close-out documentation requirements for Value-Add Mortgages in Section 40.16(b) and Form 1028, *Value-Add Monitoring*, to be consistent with the close-out requirements in the Rider to Multifamily Loan and Security Agreement Value-Add Transaction.

## **Third-party reports**

### **Form 1105, Property Condition Assessment**

To support Form 1105 Property Condition Assessment (PCA) data extraction within myOptigo, in addition to the PDF PCA Report, we are requiring each PCA submission include the Form 1105 Data Supplement (in JSON format, and in compliance with the standards on [the myOptigo Resources page](#) at FreddieMac.com). This JSON supplement can be generated using the latest Form 1105 Excel template, which is posted on the [Guide & Forms page](#) at FreddieMac.com.

Effective with inspection dates on or after **October 17, 2020**, Form 1105 must be delivered in JSON format in addition to being attached as a PDF to the PCA, but we encourage the immediate delivery of both PCA formats.

We are updating Form 1105 to include a button to generate a JSON format of the PCA and also updating Section 62.6 to reflect this change.



## Construction reports

### *Pre- and post-construction analysis reports*

We are clarifying our requirements for pre- and post-construction analysis reports as follows:

- We are updating Section 63.3(b) to clarify that the pre-construction analysis report review of the lease-up schedule compared to the unit delivery schedule is for mod-rehab deals only
- We are updating Section 63.5(a) to clarify that confirmation from the architect of record that all punch list items have been completed is acceptable documentation and may be attached to the post-construction analysis report in lieu of the final punch list

### *Form 5150, Forward Commitment Monitoring Report*

We are updating the construction reporting requirements for Forward Commitments in Section 63.4(c) to require the use of new Form 5150 to report the progress of these projects, including lease-up schedules.

Form 5150, which will be required to be used on and after **November 1, 2020** (but we encourage use of this new form immediately):

- Is due by the 25th of each month
- Must reflect current information received through the end of each preceding month
- Must include only active deals

Once fully completed, Form 5150 must be emailed to [Forward\\_Commitment\\_Monitoring@freddiemac.com](mailto:Forward_Commitment_Monitoring@freddiemac.com).

## Seismic Risk Assessment Repair Reserves

We are clarifying that the Repair Reserve requirement for a Property that will undergo a seismic retrofit applies to both non-SBL and SBL Mortgages. The Borrower must establish a Repair Reserve of at least 125 percent of the estimated cost to make the required modifications, and the retrofit must be completed within 12 months after the Origination Date. Additionally, seismic retrofits must be escrowed at 125 percent of the estimated cost (regardless of the amount of total Priority Repairs) in the Seismic Risk Assessment.

We are updating Sections 8.17, 64.14 and 64SBL.14 to reflect these changes.

### *Form 1102, Seismic Risk Assessment Summary for a Level 1 SRA*

We are updating Form 1102 to:

- Rename the last section "SEL-475" from "SEL/SUL."
- In instances where there are multiple building types, replace the "description" field in the last section of the form with three fields. One field to identify the SEL-475, one field to identify the building address/identification and another field for the general description of the structure.
- Add the ability to identify which buildings have a building stability concern

We are also updating Section 64.11 to align with these changes to Form 1102.

### *Form 1106, Green Assessment*

We are updating Form 1106 to improve data collection for Physical Risk Reports and improve the functionality of the "filter" menu in Section VIII.

## Glossary updates

We are updating the Glossary to:

- Add a new definition for “Guarantor” which is defined as any person or entity who signs a Guaranty for the Mortgage
- Add a new definition for “Freddie Mac Approved Third Party Applications” which are any third party systems or software applications approved by Freddie Mac as provided in Chapter 2.
- Update the definition of “Foreign Guarantor” which now states that an individual or entity who signs a Guaranty for the Mortgage is considered a Foreign Guarantor

## Housekeeping changes

### Forms 1115, Borrower and Borrower Principal Certificate

We are updating Forms 1115 and 1115SBL to clarify instructions for completing the forms.

### Form 1116, Real Estate Schedule

We are updating the definition of “Borrower Principal” in Form 1116 to align with the definition in the Guide.

### Form 1146, System Administrator Add/Update/Remove Request Form

We are updating Form 1146 to remove the reference to the Seller/Servicer number.

### Section 46SBL.4 Loan Agreement references

We are clarifying the Loan Agreement references in Section 46SBL.4(d) to note that the references to Section 9.01 of the Loan Agreement for non-monetary “Events of Default” apply to Mortgages with Loan Agreements that have a form revision date prior to November 2, 2015.

## Guide experience enhancements

### Accessing the Guide

To make accessing and using the Guide easy for everyone, we:

- Launched a free site version of the Guide on AllRegs, accessible via <https://mf.freddiemac.com/lenders/guide/>. This site requires no subscription or login.
- Created a [user guide](#) with helpful tips and tricks for using the Guide
- Will be posting current Guide chapters and the full PDF of the Guide starting in October at [mf.freddiemac.com/lenders/guide/](https://mf.freddiemac.com/lenders/guide/). These Guide PDFs will be updated with each Bulletin going forward.
- Are now posting Guide Updates spreadsheets, beginning with this Bulletin, at <https://mf.freddiemac.com/lenders/guide/bulletins.html>. These spreadsheets provide a list of the Guide updates associated with each Bulletin and the topics with which they correspond.

### Links to related resources

For ease of reference, we are adding tables within the applicable Guide content with links to:

- Applicable Bulletins that announced updates to the Guide content, beginning with this Bulletin



- Related resources that provide additional detail or guidance. For example, we are linking to the [Equity Conflict of Interest Determination Chart](#) in Section 2.25.

### Navigating the Guide

To improve searching the Guide on AllRegs, we are:

- Tagging Bulletins from previous years as “Old content” so that they do not come up in search results without selecting “Include Old Content”
- Enhancing synonym search results